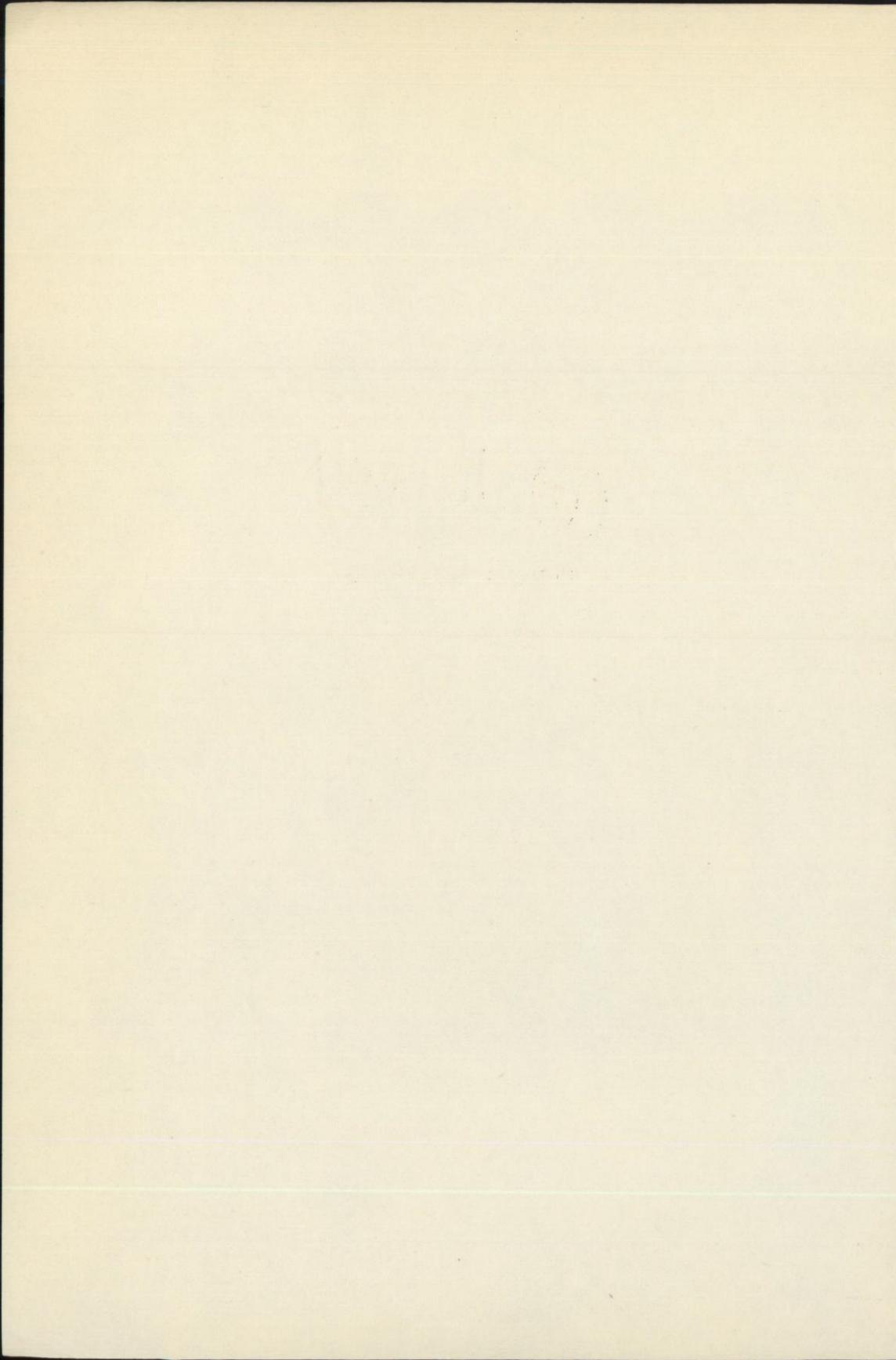


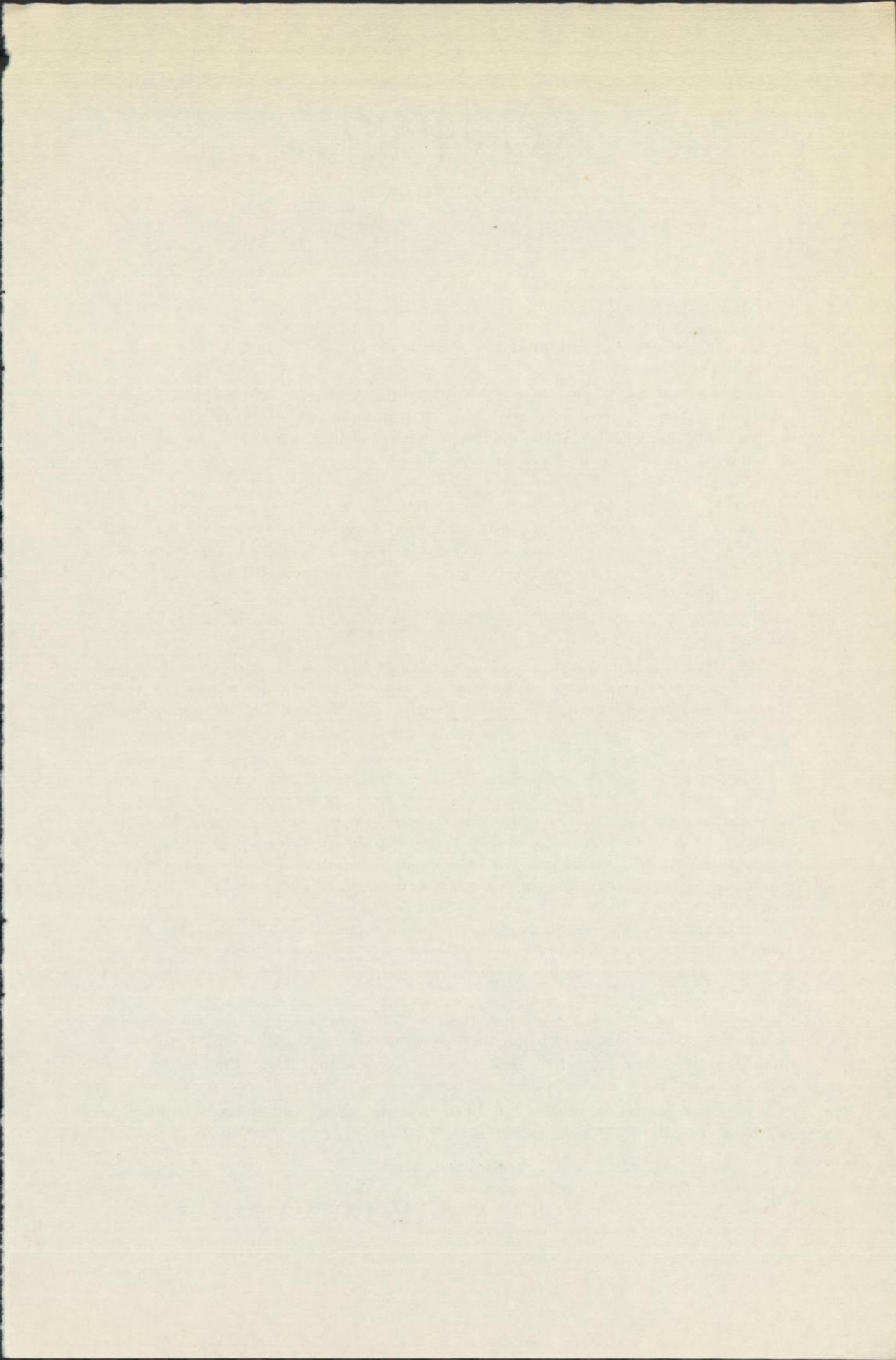
Walgreen

DRUG STORES

MRB
CORP. FILE

WALGREEN CO.
REPORT TO STOCKHOLDERS
Year Ended
September 30, 1936





Walgreen

DRUG STORES

CHICAGO

November 18, 1936.

TO OUR STOCKHOLDERS:

There follow the usual financial statements of our Company, for its year ended September 30.

Because our fiscal year began in 1935 and ended in 1936, our earnings were not subject to the new tax upon that portion not distributed to stockholders, and no provision for such tax was therefore made. Earnings after all charges including Federal Income Taxes were \$2,784,903 or \$3.04 per share, compared with \$2,320,371 or \$2.52 per share, last year.

During the year, we have enlarged or remodeled many stores resulting in a substantial increase in business, although operating 496 as compared with 501 a year ago. The cost of this work was large, as is indicated on the Profit and Loss statement, but the results are gratifying and I am confident will add cumulatively to profits.

We plan to continue our program of improvement, consolidation and expansion.

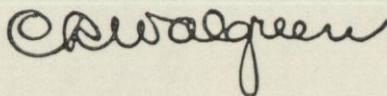
My letter of last April, which accompanied our half year interim statement, covered certain items of income of a more or less non-operating type. These of course appear in the year's figures, in substantially the same form.

Our Company has always believed in the ownership of material amounts of its stock by responsible employees. Good store managers are recognized by us as being especially important in the successful operation of our business, and we think that all those managers who have proven their worth should have the opportunity to become stockholders or to increase their holdings. Some weeks ago, an Estate decided to sell a sizable block of stock. Employees to whom the matter was mentioned were eager to acquire it. Through a trustee appointed by them, they bought the stock and with my approval divided it into lots ranging from 10 to 350 shares, about 90% going to store and store district managers. The Company gave financial sponsorship to the plan at no profit or loss to it. We have in consequence a contingent obligation to pay \$766,000 owed by the Trustee, and are secured, in effect, by 26,000 shares of Walgreen Common Stock.

My only regret in the matter is that not only did most of the participants in the plan secure less stock than they desired, but many other key employees, including the entire executive staff, got no stock, and I hope that we may be able to cure this at a later date.

Current business is good. I believe that the condition of the Company is excellent, in all important respects.

Yours very truly,



President.

ARTHUR ANDERSEN & CO.
ACCOUNTANTS AND AUDITORS

135 SOUTH LA SALLE STREET
CHICAGO

To the Board of Directors,
Walgreen Co.:

We have made an examination of the consolidated balance sheet of WALGREEN CO. AND SUBSIDIARY COMPANIES as at September 30, 1936, and of the statements of consolidated profit-and-loss and surplus accounts for the year ended that date. In connection therewith, we examined or tested accounting records of the companies and other supporting evidence and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying consolidated balance sheet and related statements of profit-and-loss and surplus accounts fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the year under review, the financial position of the companies at September 30, 1936, and the results of their operations for the year ended that date.

Arthur Andersen & Co.

Chicago, Illinois,

November 18, 1936.

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WALGREEN CO. (AN IL
AND SUBSIDIAR
CONSOLIDATED BALANCE S

A S S E T S

CURRENT ASSETS:

Cash in banks, in transit and on hand		\$ 3,192,620.22
Accounts and notes receivable—		
Accounts, less reserves	\$ 409,650.95	
Notes	13,010.85	422,661.80
Negotiable warehouse receipts for merchandise in public ware- houses		217,503.61
Inventories of merchandise, priced at the lower of cost or market; based on physical inventories taken continuously throughout the year, quantities and condition determined by the company		9,032,471.68
TOTAL CURRENT ASSETS		\$12,865,257.31

PREPAID RENT (INCLUDING ADVANCES TO LESSORS), INSURANCE, TAXES, ETC.		718,396.29
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INVESTMENTS AND OTHER ASSETS:

Stocks in other companies, at cost	\$ 402,854.25	
Notes receivable from sale of assets, less reserves	158,346.11	
Bonds, other receivables, etc., less reserves	151,850.73	
Preferred stock of Walgreen Managers Investment Co., at cost ...	50,000.00	
Cash surrender value of \$725,000.00 insurance on life of C. R. Walgreen, president	204,488.40	967,539.49

FIXED ASSETS:

Classification	Cost, Less Write-downs in Prior Years	Reserves for Depreciation	Net	
Land	\$ 331,592.14	\$ —	\$ 331,592.14	
Buildings	871,307.42	187,554.29	683,753.13	
Equipment	9,970,048.00	4,413,033.63	5,557,014.37	
	\$11,172,947.56	\$4,600,587.92	\$6,572,359.64	6,572,359.64

GOODWILL, LEASEHOLDS, LEASEHOLD IMPROVEMENTS, ETC., at nominal value		1.00
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\$21,123,553.73

ILLINOIS CORPORATION)

RY COMPANIES

HEET—SEPTEMBER 30, 1936

LIABILITIES

CURRENT LIABILITIES:

Accounts payable	\$ 2,137,008.21
Employees' investment certificates	46,650.00
Accrued payrolls, rentals and other expenses	284,307.65
Accrued taxes; real estate, personal property, sales, etc.....	462,784.62
Reserve for Federal income taxes for current and prior years (subject to final review and determination by the Treasury Department)	453,215.08
Preferred-stock dividend payable October 1, 1936	66,358.23
TOTAL CURRENT LIABILITIES	\$ 3,450,323.79

CONTINGENT LIABILITIES:

Under Federal income taxes for prior years, and in connection with pending lawsuits, etc. (including litigation under which \$100,000 cash has been impounded) estimated by the company not to exceed.\$125,000.00

Under other agreements: A trustee acting for a group of employees of the company has purchased 26,000 shares of Walgreen Co. common stock (25,000 shares from an estate), and has sold this stock to such employees in lots of 10 to 350 shares each under deferred payments; 25,000 shares have been pledged by the trustee to secure repayment of bank loans. Walgreen Co. has agreed that it will, in event of default on the part of the trustee, repurchase such shares for an amount equal to the unpaid amount of such loans 766,000.00

CAPITAL STOCK AND SURPLUS:

Preferred stock, 6½% cumulative, par value \$100, redeemable on call or in liquidation at premiums varying from \$14.00 to \$7.50 per share; annual sinking fund \$96,750.00— Originally authorized and issued 45,000 shares, retired 4,163 shares, outstanding 40,837 shares	\$ 4,083,700.00
Common stock without par value— Authorized 1,000,000 shares Issued 853,409 shares, including 29,448 shares in treasury.....	6,816,689.59
	\$10,900,389.59
Earned surplus, restricted to the extent of the unexpended preferred-stock sinking-fund appropriation of \$132,977.50 and, under the Illinois Business Corporation Act, to the extent of cost of treasury stock, \$369,455.60	7,142,295.95
TOTAL CAPITAL STOCK AND SURPLUS	\$18,042,685.54
Deduct—Treasury common stock, 29,448 shares, at cost	369,455.60
	17,673,229.94
	<u>\$21,123,553.73</u>

**WALGREEN CO. (AN ILLINOIS CORPORATION)
AND SUBSIDIARY COMPANIES**

**CONSOLIDATED PROFIT-AND-LOSS ACCOUNT
FOR THE YEAR ENDED SEPTEMBER 30, 1936**

Particulars	Amount
NET SALES, less sales taxes	\$61,783,952.77
COST OF SALES	<u>40,505,534.16</u>
Gross profit on sales	\$21,278,418.61
OTHER OPERATING INCOME	181,688.41
Total	<u>\$21,460,107.02</u>
OPERATING EXPENSES:	
Selling, advertising and occupancy	\$17,528,732.72
General and administrative	<u>713,151.98</u>
Net profit from operations	\$ 3,218,222.32
OTHER INCOME AND CHARGES:	
Other income—	
Profits resulting from sale of claims against another corporation, from sale of certain formulæ and other intangible rights and from sale of securities, less losses of \$146,980.86 in connection with discontinued lines, etc.	\$ 417,484.56
Dividends received, etc.	<u>20,029.70</u>
Total	<u>\$ 437,514.26</u>
Other charges—	
Improvements to leased properties	\$ 268,764.21
Lease-cancellation payments and expenses	74,342.92
Provision for Federal excise taxes covering items in controversy paid under protest	35,000.00
Miscellaneous	<u>7,216.67</u>
Total	<u>\$ 385,323.80</u>
Net profit before provision for taxes	\$ 3,270,412.78
PROVISION FOR INCOME AND FRANCHISE TAXES:	
Federal income taxes	\$ 415,878.63
Capital-stock and franchise taxes, etc.	<u>69,631.03</u>
Net profit carried to earned surplus	<u>\$ 2,784,903.12</u>

NOTE:

The provision for depreciation of buildings and equipment for the current year was \$706,594.57. This does not include amortization of short-life equipment of \$296,436.36 which substantially represents current expenditures.

**CONSOLIDATED EARNED-SURPLUS ACCOUNT
FOR THE YEAR ENDED SEPTEMBER 30, 1936**

BALANCE SEPTEMBER 30, 1935	\$ 6,193,195.56
NET PROFIT for the year ended September 30, 1936	<u>2,784,903.12</u>
	\$ 8,978,098.68
DIVIDENDS PAID:	
On preferred stock, 6½%, including dividend for the quarter ended September 30, 1936	\$ 265,432.83
On common stock, \$1.90 per share	<u>1,570,369.90</u>
Balance September 30, 1936	<u>\$ 7,142,295.95</u>

DIRECTORS

ARTHUR S. BOWES	ROBERT G. KNIGHT
JUSTIN W. DART	ROLAND G. SCHMITT
HARRY GOLDSTINE	CHARLES R. WALGREEN
JOY H. JOHNSON	CHARLES R. WALGREEN, JR.
JAMES E. WARD	

OFFICERS

CHARLES R. WALGREEN	- - - - -	President
HARRY GOLDSTINE	- - - - -	Vice-President
CHARLES R. WALGREEN, JR.	- - - - -	Vice-President
ELMER E. RUECKERT	- - - - -	Treasurer
ROLAND G. SCHMITT	- - - - -	Secretary
WILLIAM G. JOHNSTON	- - - - -	Ass't Sec'y

COMMON STOCK

CHICAGO

Transfer Agent
FIRST NATIONAL BANK

Registrar
HARRIS TRUST & SAVINGS BANK

NEW YORK

Transfer Agent
COMMERCIAL NATIONAL BANK &
TRUST CO.

Registrar
GUARANTY TRUST CO.

PREFERRED STOCK

CHICAGO

Transfer Agent
FIRST NATIONAL BANK

Registrar
HARRIS TRUST & SAVINGS BANK

NEW YORK

Transfer Agent
GUARANTY TRUST CO.

Registrar
COMMERCIAL NATIONAL BANK &
TRUST CO.

